

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 12, 2009

COMMONWEALTH OF VIRGINIA

At the relation of the

STATE CORPORATION COMMISSION

CLERK'S OFFICE  
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DOCUMENT CONTROL

v.

CASE NO. INS-2009-00032

SHENANDOAH LIFE INSURANCE COMPANY,

Defendant

ORDER APPOINTING DEPUTY RECEIVER  
FOR CONSERVATION AND REHABILITATION

By order entered in the Circuit Court of the City of Richmond on February 12, 2009, in Case No. CH-09-673 (the "Order of the Circuit Court"), the Commission was appointed the Receiver of Shenandoah Life Insurance Company (the "Company," "Shenandoah," or "SLIC");

The Bureau of Insurance has recommended that a Deputy Receiver be appointed to conserve the assets of Defendant and to determine whether Defendant should be rehabilitated; and

The Commission, having considered the record herein, is of the opinion that Alfred W. Gross, the Commissioner of Insurance, State Corporation Commission, Bureau of Insurance should be appointed Deputy Receiver to act on behalf of the Commission for the period the Commission is the Receiver of Defendant, whether it be Temporary Receiver or Permanent Receiver;

THEREFORE, IT IS ORDERED:

(1) That Alfred W. Gross, Commissioner of Insurance, State Corporation Commission, Bureau of Insurance, and his successors in office, are hereby appointed Deputy Receiver of Defendant to act on behalf of the Commission and are vested, in addition to the powers set forth

herein, with all the powers and authority expressed or implied under the provisions of Virginia Code §§ 38.2-1500 through 38.2-1521. The Deputy Receiver may do all acts necessary or appropriate for the conservation or rehabilitation of Defendant.

(2) The Deputy Receiver is hereby vested with exclusive title both legal and equitable to all of Defendant's assets, books, records, property, real and personal, including all property or ownership rights, choate or inchoate, whether legal or equitable of any kind or nature, including but not limited to all real and personal property, interests of any kind in subsidiaries and affiliates, causes of action, defenses, letters of credit relating to the Defendant or its business, all stocks, bonds, certificates of deposit, cash, cash equivalents, contract rights, reinsurance contracts and reinsurance recoverables, in force insurance contracts and business, deeds, mortgages, leases, book entry deposits, bank deposits, certificates of deposit, evidences of indebtedness, bank accounts, securities of any kind or nature, both tangible and intangible (including but without being limited to any contingent rights, hedges, warrants and other potential recoveries), any special, statutory or other deposits or accounts made by or for Defendant with any officer or agency of any state government or the federal government or with any banks, savings and loan associations, or other depositories and including such property of Defendant which may be discovered hereafter, wherever the same may be located and in whatever name or capacity it may be held (all of the foregoing being hereinafter referred to as the "Property") and is hereby directed to take immediate and exclusive possession and control of same. In addition to vesting title to all of the Property in the Deputy Receiver or his successors, the said Property is hereby placed in the *custodia legis* of the Commission and the Commission hereby assumes and exercises sole and exclusive jurisdiction over all the Property and any claims or rights respecting such Property to the exclusion of any other court or tribunal, such exercise of

sole and exclusive jurisdiction being hereby found to be essential to the safety of the public and of the claimants against Defendant.

(3) The Deputy Receiver is authorized to employ and to fix the compensation of such deputies, counsel, employees, accountants, actuaries, investment counselors, asset managers, consultants, assistants and other personnel as he considers necessary. All compensation and expenses of such persons and of taking possession of Defendant and conducting this proceeding shall be paid out of the funds and assets of Defendant in accordance with Virginia Code § 38.2-1510.

(4) Until further order of the Commission all persons, corporations, partnerships, associations and all other entities wherever located, are hereby enjoined and restrained from interfering in any manner with the Deputy Receiver's possession of the property or his title to or right therein and from interfering in any manner with the conduct of the receivership of Defendant. Said persons, corporations, partnerships, associations and all other entities are hereby enjoined and restrained from wasting, transferring, selling, disbursing, disposing of, or assigning the Property and from attempting to do so.

(5) The Deputy Receiver may change to his own name the name of any of Defendant's accounts, funds or other property or assets held with any bank, savings and loan association or other financial institution, wherever located, and may withdraw such funds, accounts and other assets from such institutions or take any lesser action necessary for the proper conduct of the receivership.

(6) All secured creditors or parties, pledge holders, lien holders, collateral holders or other persons claiming secured, priority or preferred interest in any property or assets of Defendant, including any governmental entity, are hereby enjoined from taking any steps

whatsoever to transfer, sell, encumber, attach, dispose of or exercise purported rights in or against the Property.

(7) The officers, directors, trustees, partners, affiliates, agents, creditors, insureds, employees and policyholders of Defendant, and all other persons or entities of any nature including, but not limited to, claimants, plaintiffs, petitioners, and any governmental agencies who have claims of any nature against Defendant, including crossclaims, counterclaims and third party claims, are hereby permanently enjoined and restrained from doing or attempting to do any of the following except in accordance with the express instructions of the Deputy Receiver:

- a. conducting any portion or phase of the business of Defendant;
- b. commencing, bringing, maintaining or further prosecuting any action at law, suit in equity, arbitration, or special or other proceeding against Defendant or its estate, or the Deputy Receiver and his successors in office, as Deputy Receiver thereof, or any person appointed to assist them in the discharge of their duties hereunder;
- c. making or executing any levy upon, selling, hypothecating, mortgaging, wasting, conveying, dissipating, or asserting control or dominion over the Property or the estate of Defendant;
- d. seeking or obtaining any preferences, judgments, foreclosures, attachments, levies, or liens of any kind against the Property;
- e. interfering in any way with these proceedings or with the Deputy Receiver, or any successor in office, in his acquisition of possession of, the exercise of dominion or control over, or his title to the Property, or in the discharge of his duties as Deputy Receiver thereof; or

f. commencing, maintaining or further prosecuting any direct or indirect actions, arbitrations, or other proceedings against any insurer of Defendant for proceeds of any policy issued to Defendant.

(8) However, notwithstanding any other provision of this Order, the commencement of conservatorship, receivership, liquidation or other delinquency proceedings against Defendant in another jurisdiction by an official lawfully authorized to commence such proceeding shall not constitute a violation of this Order.

(9) No bank, savings and loan association or other financial institution shall, without first obtaining permission of the Deputy Receiver, exercise any form of setoff, alleged setoff, lien, or other form of self-help whatsoever or refuse to transfer the Property to the Deputy Receiver's control.

(10) The Deputy Receiver shall have the power:

- a. to collect all debts and monies due and claims belonging to Defendant, wherever located, and for this purpose: (i) to institute and maintain timely actions in other jurisdictions, in order to forestall garnishment and attachment proceedings against such debts; (ii) to do such other acts as are necessary or expedient to marshal, collect, conserve or protect its assets or property, including the power to sell, compound, compromise or assign debts for purposes of collection upon such terms and conditions as he deems appropriate, and the power to initiate and maintain actions at law or equity or any other type of action or proceeding of any nature, in this and other jurisdictions; (iii) to pursue any creditor's remedies available to enforce his claims;
- b. to conduct public and private sales of the assets and property of Defendant, including any real property;

- c. to acquire, invest, deposit, hypothecate, encumber, lease, improve, sell, transfer, abandon, or otherwise dispose of or deal with any asset or property of Defendant, and to sell, reinvest, trade or otherwise dispose of any securities or bonds presently held by, or belonging to, Defendant upon such terms and conditions as he deems to be fair and reasonable, irrespective of the value at which such property was last carried on the books of Defendant. He shall also have the power to execute, acknowledge and deliver any and all deeds, assignments, releases and other instruments necessary or proper to effectuate any sale of property or other transaction in connection with the receivership;
- d. to borrow money on the security of Defendant's assets, with or without security, and to execute and deliver all documents necessary to that transaction for the purpose of facilitating the receivership;
- e. to enter into such contracts as are necessary to carry out this Order, and to affirm or disavow any contracts to which Defendant is a party;
- f. to institute and to prosecute, in the name of Defendant or in his own name, any and all suits and other legal proceedings, to defend suits in which Defendant or the Receiver is a party in this state or elsewhere, whether or not such suits are pending as of the date of this Order, to abandon the prosecution or defense of such suits, legal proceedings and claims which he deems inappropriate, to pursue further and to compromise suits, legal proceedings or claims on such terms and conditions as he deems appropriate;
- g. to prosecute any action which may exist on behalf of the policyholders, insureds or creditors, of Defendant against any officer or director of Defendant, or any other person;

- h. to remove any or all records and other property of Defendant to the offices of the Deputy Receiver or to such other place as may be convenient for the purposes of the efficient and orderly execution of the receivership; and to dispose of or destroy, in the usual and ordinary course, such of those records and property as the Deputy Receiver may deem or determine to be unnecessary for the receivership;
- i. to file any necessary documents for recording in the office of any recorder of deeds or record office in this Commonwealth or wherever the Property of Defendant is located;
- j. to intervene in any proceeding wherever instituted that might lead to the appointment of a conservator, receiver or trustee of Defendant or its subsidiaries, and to act as the receiver or trustee whenever the appointment is offered;
- k. to enter into agreements with any guaranty association, ancillary conservator, receiver or Insurance Commissioner of any state as he may deem to be necessary or appropriate; and
- l. to perform such further and additional acts as he may deem necessary or appropriate for the accomplishment of or in aid of the purpose of the receivership, including, but not limited to, the exercise of the full authority granted in the Order of the Circuit Court, it being the intention of this Order that the aforestated enumeration of powers shall not be construed as a limitation upon the Deputy Receiver.

(11) Defendant, its officers, directors, partners, agents and employees, and all other persons, having any property or records belonging to Defendant, including data processing information and records of any kind such as, by way of example only, source documents, are hereby directed to assign, transfer and deliver to the Deputy Receiver all of such property in whatever name the same may be held, and any persons, firms or corporations having any books,

papers or records relating to the business of Defendant shall preserve the same and submit these to the Deputy Receiver for examination at all reasonable times;

(12) There is hereby imposed the following moratorium, subject to the further Orders of the Commission or the directives of the Deputy Receiver. This moratorium may be cancelled, expanded or otherwise amended by the Deputy Receiver at such times and in such manner as he deems proper under the prevailing circumstances:

- a. The Company shall neither solicit nor accept applications for newly issued insurance contracts or policies on and after the date of this Order, except as set forth below.
- b. The Company shall not, other than as permitted by this Order, issue any new policies or contracts of insurance, including annuities, on and after the date of this Order.
- c. The Company may renew annuities, policies or contracts of insurance that it has issued prior to the date of this Order and which are in force as of such date.
- d. The Company may issue additional certificates under group policies or contracts of accident and health insurance that it has issued prior to the date of this Order and which are in force as of such date.
- e. The Company shall cease the payment of policy loans, cash or surrender values, surrenders, fund transfers, lapses, cash-outs and similar payments and to implement contract changes. The Company may continue paying death, accident, and sickness claims and periodic annuity payments. This Order does not affect automatic premium loans.

(13) In addition to the foregoing, and that provided by statute or by the Defendant's policies or contracts, the Deputy Receiver may, at such time he deems appropriate, without prior notice, subject to the following provisions, impose such full or partial policy liens, moratoria or



suspension upon the following payments, obligations, or alterations which arise as sums due under the policies or contracts issued by Defendant: policy surrenders, policy loans (except automatic premium loans), contract conversions, and other similar payments, obligations or alterations. The policy liens, moratoria or suspension shall not affect the payment of death benefits, accident and health benefits and periodic payments under the Defendant's annuities and other contracts unless the Deputy Receiver concludes such payments would constitute unlawful preferences.

- a. Any such policy lien, suspension or moratorium shall apply in the same manner or to the same extent to all policies or contracts of the same type or to the particular types or payments due thereunder. However, the Deputy Receiver may, in his sole discretion, impose the same upon only certain types, but not all, of the payments due under any particular type of contract or policy.
- b. Notwithstanding any other provision of this Order, the Deputy Receiver may implement a procedure for the exemption from any such policy lien, moratorium or suspension, including those imposed by this Order, those hardship claims, as he may define them, that he, in his sole discretion, deems proper under the circumstances.
- c. The Deputy Receiver shall only impose such policy lien, moratorium or suspension when the same is not specifically provided for by this Order, contract or statute as part, or in anticipation, of a plan for the partial or complete rehabilitation of Defendant or when necessary to determine whether such partial or complete rehabilitation is reasonably feasible.

- d. Under no circumstances shall the Deputy Receiver be liable to any person or entity for his good faith decision to enforce, administer, impose, or to refrain from imposing, such policy lien, moratorium or suspension.
- e. Notice of such policy lien, moratorium or suspension, which may be by publication, shall be provided to the holders of all policies or contracts affected thereby.

(14) The Deputy Receiver and all deputies, special deputies, attorneys, accountants, actuaries, investment counselors, asset managers, peace officers and other consultants are deemed to be public officers acting in their official capacities on behalf of the state and shall have no personal liability for or arising out of their acts or omissions performed in good faith in connection with their services performed in connection with these or related proceedings or pursuant to this or related orders except as regards claims by the Receiver or Deputy Receiver.

(15) No judgment, order, attachment, garnishment sale, assignment, transfer, hypothecation, lien, security interest or other legal process of any kind with respect to or affecting the Defendant or the Property shall be effective or enforceable or form the basis for a claim against Defendant or the Property unless entered by the Commission, or unless the Commission has issued its specific order, upon good cause shown and after due notice and hearing, permitting same.

(16) All costs, expenses, fees or any other charges of the Receivership, including but not limited to fees and expenses of accountants, peace officers, actuaries, investment counselors, asset managers, attorneys, special deputies, and other assistants employed by the Deputy Receiver, the giving of the Notice required herein, and other expenses incurred in connection herewith shall be paid from the assets of Defendant. Provided, further, that the Deputy Receiver may, in his sole discretion, require third parties, if any, who propose rehabilitation plans with

respect to Defendant to reimburse the estate of Defendant for the expenses, consulting or attorney's fees and other costs of evaluating and/or implementing any such plan.

(17) If any provision of this Order or the application thereof is for any reason held to be invalid, the remainder of this Order and the application thereof to other persons or circumstances shall not be affected thereby.

(18) The Deputy Receiver may at any time make further application for such further and different relief as he sees fit.

(19) The Commission shall retain jurisdiction for all purposes necessary to effectuate and enforce this Order.

(20) The Deputy Receiver is authorized to deliver to any person or entity a certified copy of this Order, or of any subsequent order of the Commission, such certified copy, when so delivered, being deemed sufficient notice to such person or entity of the terms of such Order. But nothing herein shall relieve from liability, nor exempt from punishment by contempt, any person or entity who, having actual notice of the terms of any such Order, shall be found to have violated the same.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:  
Kathleen M. Kronau, Vice President, General Counsel and Secretary of Shenandoah Life Insurance Company, P.O. Box 12847, Roanoke, Virginia 24029; Melvin Tull, III, Esquire, Hunton & Williams, LLP, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074; Don Ferguson, Senior Assistant Attorney General, Office of the Attorney General, 900 East Main Street, Richmond, Virginia 23219; and the Bureau of Insurance in care of Alfred W. Gross.

A True Copy  
Teste:

  
Clerk of the  
State Corporation Commission